

## BOOK REVIEW

### ***Simpler: THE FUTURE OF GOVERNMENT***

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#### INTRODUCTION

“Why people procrastinate?”, “why behavior contagious?”, “should the government choose the best for its citizens rather than leaving them to choose by themselves?” These questions, while looks simple, are not trivial. Efforts to answer such questions have been done by economists and other social scientists, but many have failed to transform the quest into the domain of policy-making.

Written by Cass R. Sunstein, a Professor of Law at Harvard Law School and the director for the Program on Behavioral Economics and Public Policy, *Simpler* is aimed to laymen readers. A more serious reader, however, would find the notes at the end of the book useful as it provides a wealth of references. In fact, at the back of the book’s dust jacket, Esther Duflo, one of the brightest minds in today’s economic community, claimed that the book had brought back her belief that the government could help its people to have a better life. Before *Simpler*, Sunstein has coauthored *Nudge: Improving Decisions About Health, Wealth, and Happiness* (2008) with the economist Richard Thaler. Both *Simpler* and *Nudge* bear the same idea that a good approach should preserve freedom but has the potential to make people to fulfil the best of life.

*Simpler* is an interesting introduction to behavioral economics and its practical implication on public policy and governance. In his book, Sunstein gave us a peek into the Obama administration, especially under the Office of Information and Regulatory Affairs (OIRA), where Sunstein was the administrator from 2009 to 2012. OIRA itself has been in operation since

the enactment of the Paperwork Reduction Act of 1980 and is administratively a part of the Office of Management and Budget of the White House. The role of OIRA is to review existing regulations and develop and oversee the implementation of government policies. Consequently, OIRA has become the vanguard to achieve government programs and regulations effectiveness and has direct influence over government’s policy.

#### BEHAVIORAL ECONOMICS IN ACTION

Sunstein and OIRA used insights from behavioral economics to inform law and policy. As an emerging subject in economics, behavioral economics has gain prominence after the recent financial crisis in 2008. Behavioral economics employs methods and knowledge from other disciplines, especially psychology, to enrich and dispute mainstream (neoclassical) economics, and to inform policy.

An example of behavioral economics concept used to inform policy is the framing effect, which is how different presentation of the same information may have different impact on people. An understanding on how people might react to different information presentation is valuable in reviewing a proposed regulation. Another behavioral concept that has been widely used to understand people’s behavior in government policy is myopic behavior, where people seek immediate enjoyment at the cost of future benefits. For example, the US Department of Transportation have acknowledged that “many consumers are unwilling to make energy-efficient investments even when those investments appear to pay off in the relatively short-

term”, which brought to the importance of behavioral concept to justify regulation (Department of Transportation as cited in Sunstein, 2013: 72-73).

The departure of behavioral economics from theory to practice is probably one of the main strength of this book. *Simpler* provides an interesting application (on policy) of theoretical and experimental behavioral economics that has been well documented by Daniel Kahneman’s *Thinking, Fast and Slow*. Kahneman’s book has gained enormous popularity and introduces theoretical findings on this subject to the general audience. If *Thinking, Fast and Slow* is the “bible” for popular behavioral economics, then *Simpler* is probably the “Ten Commandments”, where knowledge and ethics from the “bible” is transformed into practice as “Ten Commandments” did.

### **SIMPLER: MAKE IT EASY**

Sunstein’s experience in managing OIRA covers the bulk majority of this book. In doing his job, Sunstein presents several interesting stories such as the debate on government’s role in the economy and on red tapes.

One of the traps on the debate of the role of government in the economy is typically hovering around the “how big they should be?” question. This is a “trap” question since it usually led to the discussion over the amount of money spent on government programs, the number of government employees engaged, and the number of regulations passed by the congress. In *Simpler*, Sunstein tried to stress the importance of shifting the paradigm from “how big” to “how effective”. For example, the Affordable Care Act—a regulation similar to Indonesia’s BPJS—requires automatic enrollment, where its benefits have been widely recognized in areas such as savings and national organ donation (Gale, 2009; Johnson & Goldstein, 2003). Having someone to be automatically enrolled to the Act (with an option to opt-out) means that the person’s freedom remains preserved, while, at the same time, benefits from the program itself.

While on eliminating red tapes, the Obama administration had been active and its impact is

not negligible. For example, the decision to simplify regulatory and reporting requirements in hospitals had saved around USD 5 billion for the next five years (US Department of Health and Human Services, 2011). Another example is how the Occupational Safety and Health Administration removed more than 1.9 million hours of unnecessary reporting burden every year. In fact, it is estimated that around USD 40 million of annual costs were saved from this program.

In *Simpler*, one of the main tools used by Sunstein’s OIRA is to employ cost-benefit analysis (CBA) of every proposed government regulations, be it at a state-level or national-level. One of the objectives of using CBA is to minimize regulatory costs that burdening federal agencies and tax payers. For most undergraduate economics students, CBA is probably one of the simplest methods to estimate the feasibility of a project. In practice, the federal government is expected to quantify the cost and benefit of any proposed policy or regulation, such as the proposed policy to regulate pollution or policy to minimize traffic accidents. Therefore, the use of CBA is important because it brought the need to have high quality statistical information to replace subjective claims to be used in prescribing policy formulation.

In his book, Sunstein gives examples in practicing CBA such as the air pollution regulation aimed to reduce mercury emission. The benefit from this particular regulation is not only on the direct impact of mercury pollution reduction but is also indirectly effecting other pollution to decrease. It is interesting to note that many claims that the largest benefits did not related with mercury pollution, which brought us to the importance of a full accounting: “If a rule creates incidental harm, that harm should be taken into account; the same is true if a rule creates incidental benefits” (Sunstein, 2013: 155). From such a simple tool, OIRA has brought CBA to the next level and be used as one of the decision criteria of whether a proposed government program should be given an OK or not. The simplicity in CBA is a manifestation of *nudge* that guide people to pick the best, where

the best of choice should have high benefits and low cost (Sunstein, 2013: 9).

## THE VERDICT

The popular approach in *Simpler* is at the cost of those who are eager to introduce this book to a formal class or to those who are not familiar with the US government system. Sunstein's focus on cases in the US makes readers from outside the US have to think hard on how to relate findings in *Simpler* to practices in their own country. In addition, the technicalities on how to use behavioral economics are not readily apparent in *Simpler*, which makes the readers guessing on the extent of its use in formulating policy.

Nonetheless, *Simpler* offers an interesting piece of practical knowledge, delivered in a popular way, of how the now-mainstream behavioral economics has influence over economic discussion and policy. The existence of OIRA should also enlighten policy makers in Indonesia, especially those in Bappenas (State Ministry of National Development Planning) and UKP4 (Presidential Work Unit for Supervision and Direction of Development), two government agencies responsible for overseeing and evaluating government programs and regulations. With a focus on effective governance supported by robust statistics, both Bappenas and UKP4 could follow OIRA's role by taking insight from the academic world, especially from behavioral economics.

Above view, however, should be taken with caution since the unique institutional nature of Bappenas and UKP4 that is inherently different with OIRA itself. In fact, Liza Heinzerling, a Professor of Law at Georgetown University Law Center, questioned the obscure position of OIRA within the White House and its secretive procedure when judging a proposed regulation, which could undermine its accountability (Heinzerling, 2013).

Finally, this is a must-read book with plenty of fresh insights from one of the greatest proponent of behavioral economics on how the government could have an active role in helping its citizens to make better decision in their life. Whether you are an academician, a government official, or an ordinary citizen, this book would definitely be a nice addition to your weekly reading list.

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